ROBERT COWEN INVESTMENTS

NEWSLETTER – END DECEMBER 2022

20 January 2023

HIGHLIGHTS OF THIS NEWSLETTER ARE:

- Update on RCI & Announcements
    - New RCI staff members
    - End of 2023 tax year approaching: Retirement fund contributions
- 2023 market outlook – *by Mike Gresty*
- Anchor local stock picks for 2023 – *by the Anchor Investment Team*
- Anchor global stock picks for 2023 – *by the Anchor Investment Team*
- What have we been doing in the offshore funds – *by the RCI Investment Team*
- What have we been doing in the local fund – *by the Anchor SA Equity Investment Team*
- Charts, memes and interesting concepts for the month
    - 2022 country-specific equity market performance
    - 3-year trend of the largest 20 companies on the S&P 500
    - US stock market winners & losers of 2022
    - S&P 500 returns following a 20% drawdown
    - Eurasia Group: Top Risks 2023
    - 2023 predictions using AI language model
- Latest research from Anchor Capital
    - WHAT CAN FINANCIAL MARKETS EXPECT IN 2023? TEN FACTORS TO CONSIDER

***Note:** If any of our clients wish to be added to the Anchor research and news mailing list, kindly let us know and we will gladly add you.*

Dear Clients,

We hope that you had an enjoyable festive season and are ready to tackle 2023. We look forward to assisting you in 2023 in what will hopefully be a less eventful year. In 2022 we were faced with unprecedented challenges, and it was not easy for any of us. We thank you for entrusting us with your funds and are grateful for each of our clients, we do appreciate you being on board.

We hope to continue assisting you, our clients, by being the best Family Office we can be.

Di, Mike & The RCI Team

PS: Please feel free to pass this newsletter on to friends and family who may wish to learn more about investing. To be added to our mailing list, contact keiran@rcinv.co.za or 011 591 0666

*If you know of anybody who would like their financial affairs looked at, please do not hesitate to send them our contact details and we will ensure we get back to them with a proposal plan. They can contact us at eric@rcinv.co.za or 082 561 3124.

If you have any questions about your portfolios, please feel free to reach out to one of our team members. We are always happy to help.

UPDATE ON RCI & ANNOUNCEMENTS

Dear Clients,

After a tumultuous year for the investment world globally in 2022, RCI also said goodbye to Maggie da Silva, who retired. She was an integral part of our admin function, and no doubt many of you had contact with her. Together with the ever-increasing compliance and regulatory burden placed on businesses in the financial services sector, and our growing accounting and administrative service offering, we start the year off with two new staff who have joined us.

Aarthi Bikram has joined Kirsty's team as Senior Trust Accountant. Aarthi has 16 years of experience in this field, most recently with Stonehage Fleming. Together with assisting with the preparation of trust financials, she is also a registered tax practitioner. She will add enormous value to this function within RCI, as we continue to focus on growing this aspect of the business and to provide clients with a comprehensive, holistic "one stop shop" to assist in managing complex and detailed family financial affairs.

Kim Cooper has also joined our admin team. Kim has a background in property and brings with her a valuable understanding of legal and compliance frameworks. Kim will initially be assisting Marieke, with the various hats Marieke wears, as we also prepare to say a temporary farewell to Kate, who will be going on maternity leave when she welcomes her little one to the world in the next couple of months. Kim will also no doubt be in touch in the coming months – as we have indicated previously, the continual need to provide updated FICA documentation has added significantly to our workload, and workflow. Under Marieke's guidance, Kim will be collating and running with much of this aspect.

We wish both Aarthi and Kim a long and enjoyable career with the RCI family.

On another note, we also extend our congratulations to Marieke, who last year completed a Certificate in Compliance Management through UCT, with a final grade of 91%. There is definitely not much that she now doesn't know! Given the continuing and increasingly complex compliance component to our industry, this will no doubt also contribute significantly to our internal processes. Congratulations Marieke on a well deserved and hard earned result!

Every year you are able to make a pre-tax contribution to your **tax-free savings account** or **retirement annuity** of up to 27.5% of the higher of your taxable income or remuneration, capped at R350 000 per tax year. The benefit of this contribution, other than increasing your retirement savings for the tax year, is that it also maximises the tax benefits associated with retirement fund contributions, in that they are fully tax deductible, and future growth is free from any dividend withholding tax, tax on interest and capital gains.

If you have not maximised this benefit, and would like to make an additional contribution to your retirement annuity (RA) in the form of a lump sum contribution, please contact christine@rcinv.co.za and we will get in touch with you to work out the value of the lump sum you can invest to maximise your tax benefit.

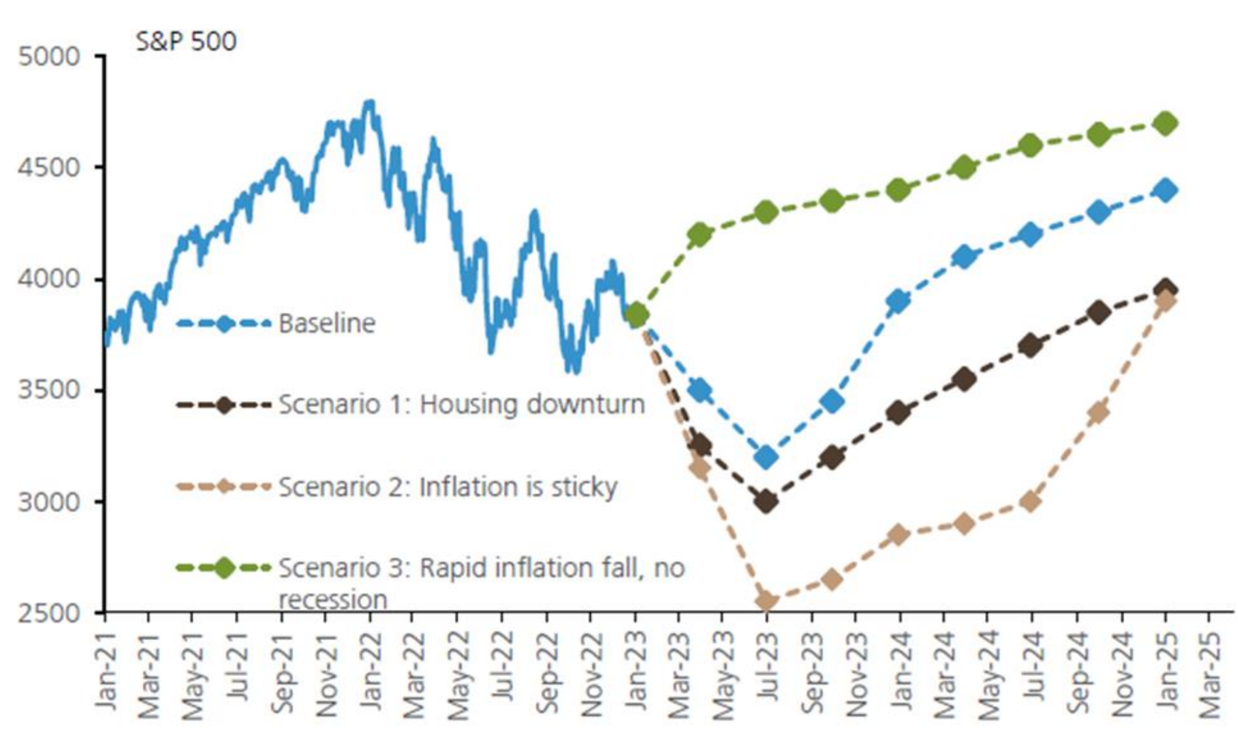
These contributions have to be submitted and paid before the end of February 2023. To ensure that all investments made are allocated prior to the end of February 2023, we would request that all additional contribution requirements are sent to us by the 21st of February 2023.

BY MIKE GRESTY

Global equity markets – concentrated consensus view of tough 1st half and a rebound in 2H23

As we collect our thoughts about what lies ahead for markets in 2023, we are reminded of the observations from Howard Marks (co-founder of Oaktree Capital) regarding the value of predictions and forecasts: "*In summary, most forecasts are extrapolations, and most of the time things don't change, so extrapolations are usually correct, but not particularly profitable. On the other hand, accurate forecasts of deviations from trend can be very profitable, but they're hard to make and hard to act on. These are some of the reasons why most people can't predict the future well enough to repeatably produce superior performance*". These observations have parallels with a point we have made before – investment markets are efficient at pricing in the current collective expectations of market participants, which means that the investment performance we actually get in the relatively short-term is driven principally by how events unfold differently vs. that expectation. 2022 was certainly a year that taught us about what happens when material market-moving events unfolded in such a negative way versus expectations. It injects a healthy dose of humility as we reflect on what lies ahead for markets in the coming year. With the above thoughts in mind, one thing that does trouble us about the predictions for 2023, which we will sumarise below, is that a "dip-and-rip" profile to investment returns in 2023 is an unusually concentrated consensus view. Most forecasters are predicting a difficult first half, in which equity markets may well re-visit their 2022 low point at some stage, before rebounding in the 2nd half of the year, to end at similar levels or better compared with the start of 2023. The chart below, courtesy of UBS, presents this very well, also laying out the main factors that, as things stand today, are likely to dictate how the US market (which often sets the tone for the rest of the world's markets) will behave this year.

UBS's expectation for S&P 500 evolution and potential scenarios



Source UBS

While arguments in support of this dip-and-rip profile view are certainly reasonable, precisely because it seems such a consensus view creates doubts in my mind things will turn out this way!

Before we get to 2023 predictions, let's set the scene by reflecting briefly on 2022 – a year which, from an investment perspective, few will be sad to see the back of. In the two tables below, we have shown the performance of various asset classes in which one could have been invested, followed by a deeper level look at the various sectors of the US market performed in 2022.

2022 USD returns of various asset classes with income reinvested

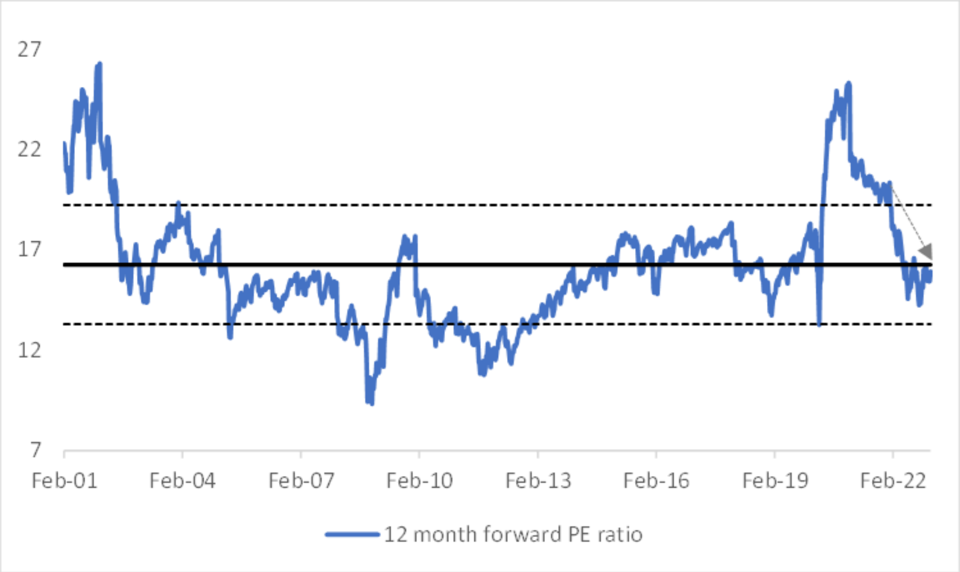
Developed Market Equities	-17%
Emerging Market Equities	-20%
South African Equities	-2%
Global bonds	-16%
South African Bonds	-3%
Global Real Estate Investment Trusts (Property)	-24%
South African Property	-6%
Energy	33%
Agricultural Commodities	13%
Precious Metals	-2%
Industrial Metals	-4%

Performance US equity market sectors in 2022

Energy	65%
Utilities	2%
Consumer Staples	-1%
Healthcare	-2%
Industrials	-6%
Financials	-11%
Materials	-12%
Real Estate	-26%
IT	-28%
Consumer Discretionary	-37%
Communication Services	-40%

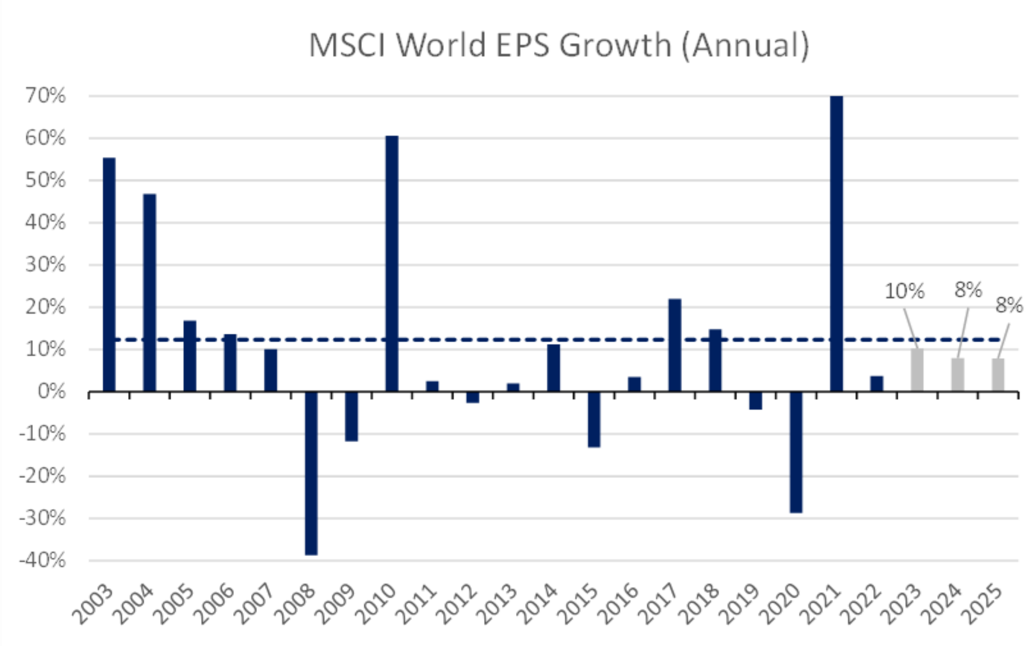
The conclusion we draw from the above tables is that, unless you had begun the year with your investments concentrated in energy stocks, you were almost certain to have lost money in 2022. A year in which investors lost money in both equities and bonds is highly unusual, as typically these two asset classes tend to act as a hedge for one another. Thinking about what caused this widespread selloff of risk assets and whether it was obvious ahead of time, we would sum it up that two unexpected events in 2022 amplified what with hindsight now appears to have been far too much stimulus to offset the negative effects of the COVID pandemic. These events were: (1) the unprovoked invasion of Ukraine by Russia, which led to extreme inflationary pressures in food and energy across much of the world; and (2) China's insistence on maintaining its zero-COIVID policy, which led to an inability of supply chains to respond to persistently strong consumer demand resulting from past stimulus (also inflationary). The result was that central banks in most parts of the world were forced to raise interest rates far higher and more rapidly than previously expected to bring inflation under control. The consequence of higher interest rates (a higher cost of capital in other words) is that the value today of future earnings that companies will generate and dividends they will pay declines. For most risk assets 2022 was about a reset in valuation. In the chart below, we have shown the price as a multiple of expected earnings for Developed Market (DM) equities. This valuation has fallen from 20.4x at the end of 2021 (expensive relative to its history) to 15.9x today – close to average.

MSCI World Index 12-month forward price-to-earnings ratio



Entering 2023, the message from the vast majority of forecasters is cautious, particularly with reference to the first half of the year. Given that it takes several months for the impact of changes in interest rates to impact the economy, the fear is that central banks will compound their past policy mistakes of too much stimulus and failure to begin raising interest rates early enough by making another – now pushing up interest rates to a level that pushes the world into recession in 2023. While most forecasters believe that the valuation adjustment we discussed above means markets have adjusted to the higher interest rate world in which we find ourselves today, the main concern from here is that earnings forecasts are too optimistic at present. The chart below shows that currently the aggregation of company analyst forecasts leads to an expected 9% earnings growth for companies listed on the US market for 2023. While the circumstances and impact of each downturn on companies is different, observing what happened to company earnings during the last two recessions (2008-09 Global Financial Crisis and the 2020 COVID lockdown-induced recession) suggests current expectations may be too high. With reference to history, equity markets usually bottom in the early stages of a recession and then, despite continued negative economic news, begin to recover as forward-looking investors start to anticipate the pivot by central banks to more accommodative conditions (decline in interest rates) and the subsequent recovery to come.

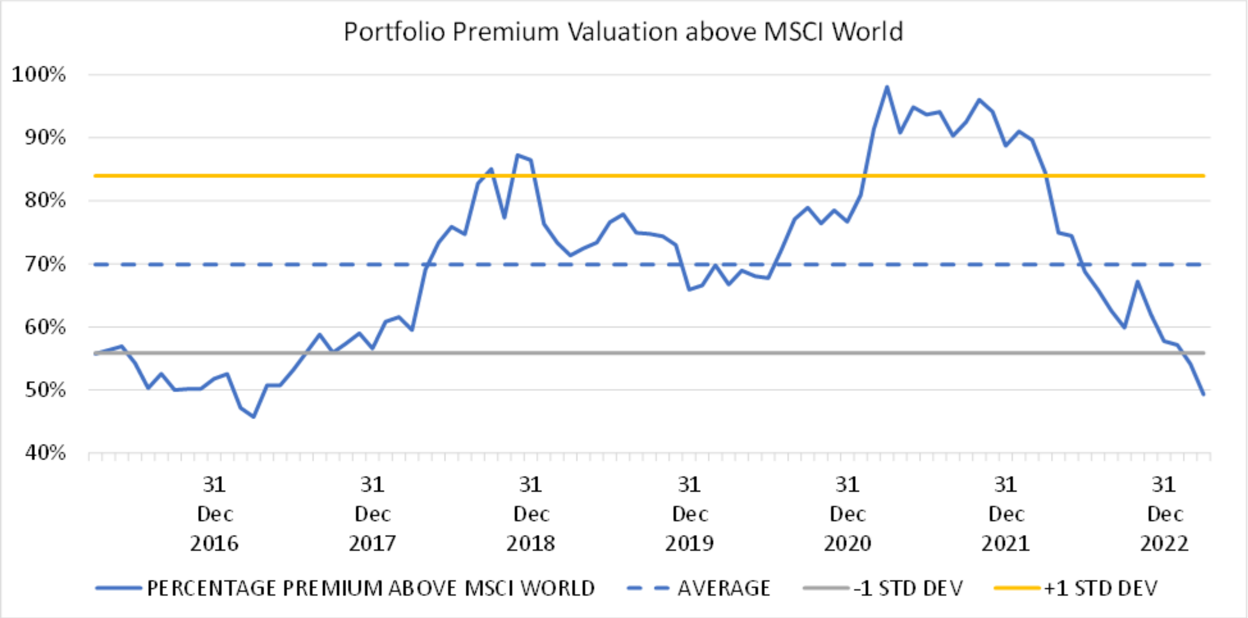
S&P 500 Earnings Growth Forecast



The dip-and-rip profile that is envisaged by many strategists in 2023 begins with a period in which markets continue to face headwinds from inflation remaining elevated from longer than expected, leading to continued hawkishness from monetary policy setters, accompanied by earnings downgrades. What is anticipated at this point to be a mild recession later in 2023, leading to a pivot by policy setters to a more accommodative stance, which leads to a recovery in risk assets in the latter part of the year.

What complicates matters is that, if we are to experience recession in 2023, it is likely to be one of the most widely anticipated recessions ever and thus it is possible that is has already been discounted into investors' expectations to a large extent. As we cautioned in our introduction, while the logic for why equity markets will follow this course in 2023 makes a lot of sense, it is precisely the fact that it is already so widely anticipated that counts against things unfolding this way. Already, there have been a couple of developments that have turned out more favourably than expected: (1) Europe's relatively mild winter has eased pressure on energy supplies, leading to economic activity performing better than feared; and (2) China's unexpectedly rapid exit from its zero-COVID policy, which, although it may lead to a few bumps in the short-term, is likely to drive a strong growth rebound later in 2023.

For our offshore funds and many of the portfolios that we manage which follow our "quality/growth" strategy, 2022 was a particularly challenging year – one in which we underperformed the broader market. While this is particularly unfortunate that it has occurred in a year in which markets have performed poorly too, it is important to appreciate that no investment strategy will outperform in every period and under all market conditions. It has led to deep introspection for us regarding why our portfolios comprised chiefly of quality stocks (attributes including high returns generated on their capital and strong balance sheets) did not prove more defensive in this downturn and whether our investment approach remains appropriate. It must be acknowledged that there were individual companies which have materially underperformed expectation operationally, which has called into question whether their "quality" status was warranted. Sadly, it is in the nature of investing that there will be disappointments and we seek to learn from each of these to ensure we don't repeat the error. Mainly though, we believe the 2022 annus horribilis for the quality/growth style had most to do with valuation. Due to the attractive attributes of shares in this category, they tend to trade at a valuation premium to the broader market. The chart below (which Ross McConnochie has shown on several occasions), shows how the premium valuation of the stocks in our offshore funds and portfolios has trended over time. For several years up until the beginning of 2022 this premium valuation became quite extended.



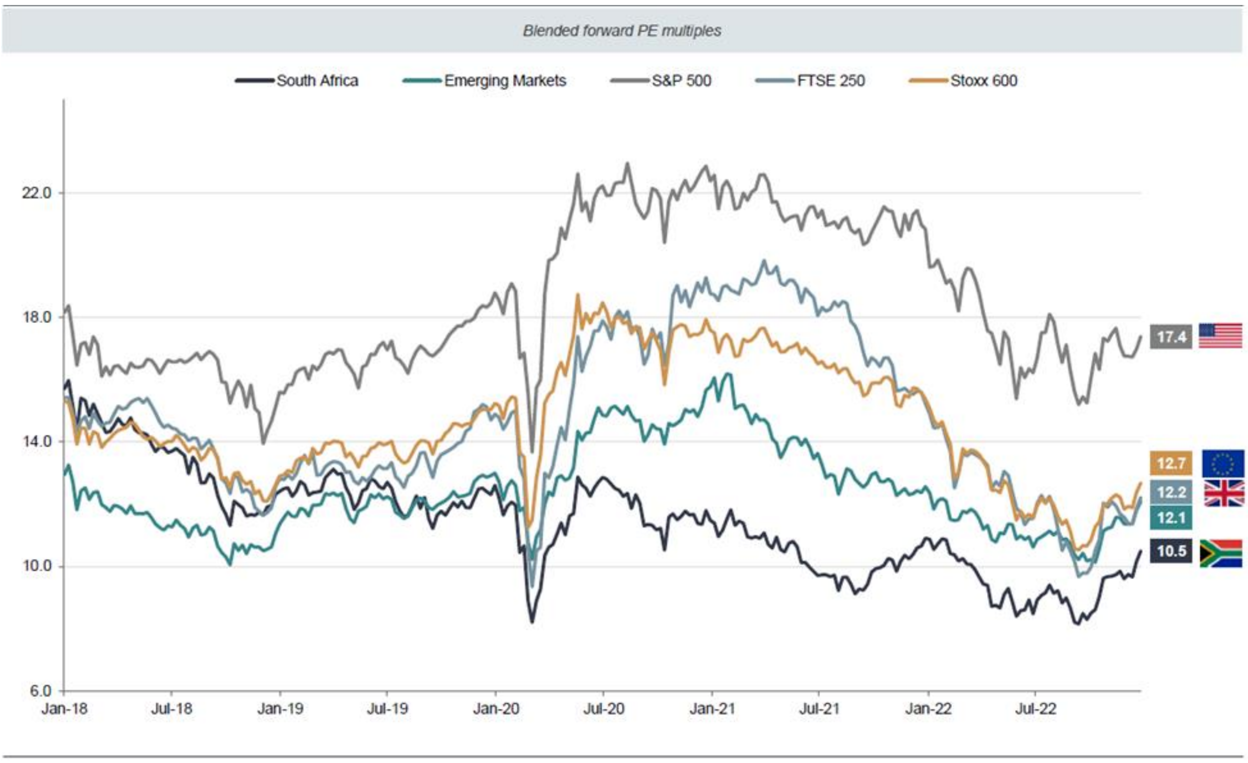
The underperformance of quality/growth shares in 2022 has been the result of this premium paid for superior fundamentals collapsing. Because of the lagging effect of higher interest rates, economic conditions in the US in particular held up well in 2022. As a result, company results generally were solid and, as a consequence, the attributes of the quality component of the market, which investors tend to value highly when economic conditions are poor and growth hard to come by, were not a particular concern for investors.

We do not think the decline in the premium valuation of quality/growth shares in 2022 has much to do with a change in the fundamentals for the companies themselves. If the lagged effect of past rate hikes means the resultant economic headwinds will be felt in 2023, it is exactly the environment in which we would expect quality/growth shares to prove their worth. While 2022 was an extremely frustrating year for our investment style, we remain unchanged in our belief it will be the route to outperformance in the longer-term.

To sum up then, 2022 was a year that proved the saying that bull markets don't die of old age, but rather they are killed by the Federal Reserve. 2023 is expected to be better, but investors will have to be patient. Volatility is likely to persist until we get clarity on the lagging impact of central banks' tightening policy on the real economy and company earnings. The forward-looking nature of markets, however, means that a recession later this year will likely see investors begin to price in the resultant easing in monetary policy and a recovery to come, even before we see any improvement in the economy itself. Looking beyond 2023, a possible world of higher interest rates and volatility going forward is likely to be one in which good stock selection will take on renewed importance and we think quality investing, although much maligned in 2022, will prove itself once again. Don't lose heart - remember that after such a challenging year of negative returns, the future returns available from this level are significantly better. Although it may be a bumpy journey this year, we are expecting global equity markets to deliver a positive USD return of c. 10%, as by the end of the year, the forward-looking nature of investors will see them pricing in a recovery from the economic malaise/recession induced by current tightening of monetary policy.

South African equities – set-up surprisingly favourable considering domestic macro concerns

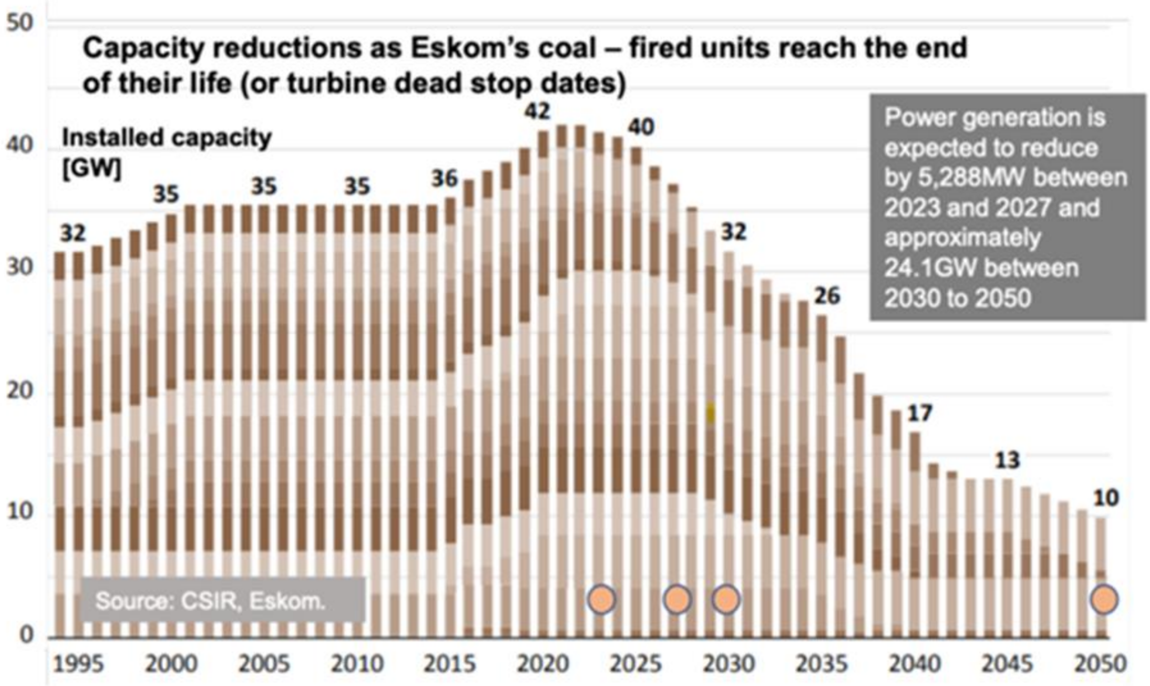
Regarding South African equities, the 2022 scorecard at the beginning of this article shows that, while performance was poor in absolute terms, South Africa was a notable relative outperformer in a global context. We think this is the result of two things: (1) the generally mediocre performance of the SA equity market over the last 5 years means that the starting point for valuations was never in the bubble-like position of markets elsewhere (see the chart below, which shows the valuation of South African equities over the last 5-years compared with that of other major equity markets around the world) – the advantage of starting with low expectations; and (2) unexpected good fortune as a producer of many of the commodities for which supply suddenly tightened as a result of sanctions imposed on Russia following its invasion of Ukraine.



As we consider what lies ahead for the SA equity market in the year ahead, it is important to appreciate how little the SA equity market reflects the South African economy. We are very concerned about the risks posed by SA's failing infrastructure (Eskom and Transnet specifically) and believe that to dismiss this on the basis that SA management teams have historically managed relatively well despite these problems in the past, misses how much more serious these risks have become. However, when one looks at the listed equity market, it is notable how little of it is sensitive to these risks. In fact, the stars appear quite favourably aligned in many ways for it. Since the SA economy has been underperforming its potential for many years already, it is not surprising that companies that are most sensitive to this have already become a much smaller component of the index. With this in mind:

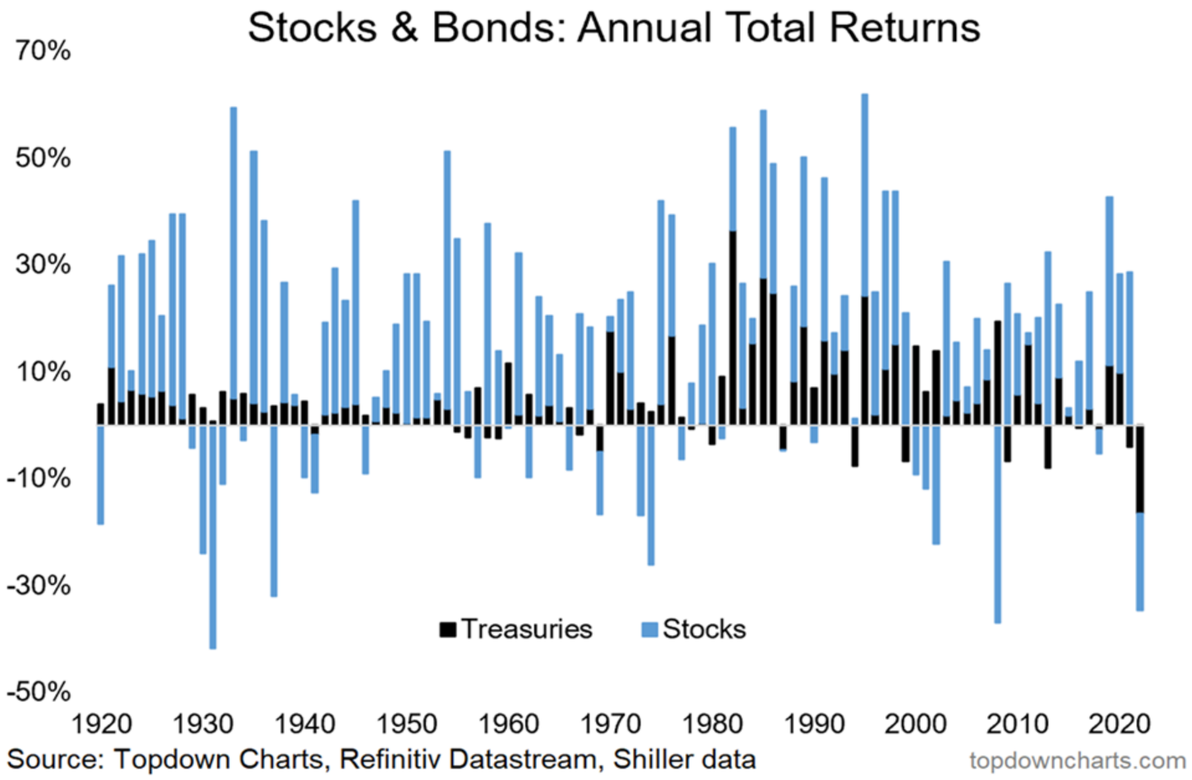
- Despite the increase in valuation of the overall market over the last quarter due to strong market performance (+19% in USD in the final quarter), at a price-to-forecast earnings multiple of just 10.5x, it remains inexpensive relative to its own history, other Emerging Markets and Developed Markets.
- For commodity producers (now accounting for 26% of the SA market), despite the prospect of recession in Developed Markets, the implications for demand of China opening up post-COVID in 2023 bodes well for this segment of the market this year.
- Likewise for Naspers/Prosus (14% of the SA market), improving prospects for Tencent, which accounts for c. 75% on their net asset value, after being cast aside by international investors through China's regulatory crackdown of its tech platforms and subsequent COVID policy blunders, suggests further upside in prospect this year.
- A further 10% of the SA market (the likes of BidCorp, Richemont and Quilter) are rand hedge shares that have virtually no exposure to SA. Several of these are quality businesses whose prospects are sound in the year ahead.
- This leaves 50% of the SA market, which we refer to collectively as "SA Inc", which to varying degrees will be sensitive to the headwinds of SA's failing infrastructure. It is, however, possible to select stocks that are likely to be relatively better insulated from this (education stocks like AdvTech and Stadio, services businesses like Bidvest for example).

In summary, it is quite conceivable that SA equities could deliver a solid double digit (Anchor is projecting a rand return of 13% in 2023), based on several of the stars aligning for the non-SA parts of the market. Given the reliance of this return on the cyclical mining sector and how events unfold in China, one should appreciate the variability of potential returns around this forecast is high. Regarding the SA Inc. part of the market, we caution that very careful stock selection will be required. Looking further out, despite the good work being done on introducing renewable power sources, the chart below presents a worrying picture of the profile of generation from Eskom as things stand. While 2022 was not a poster child for the strategy of "living in the sun, investing in the shade", we remain convinced that it is the correct approach to diversify wealth and achieve inflation-beating returns over the long-term.



Fixed income – the case for some exposure better than in the past

While the chart below gives a good long-term perspective on just how bad 2022 was for investments – we draw your attention specifically to the black bars – 2022 was the worst year for bonds in the last century! Keeping in mind the point that, as interest rates go up, the capital value of bonds goes down, the bloodbath in fixed income in 2022 was the result of the past decade of near-zero interest rates coming to an end as inflation returned with a vengeance.



BY MIKE GRESTY (CONTINUED)

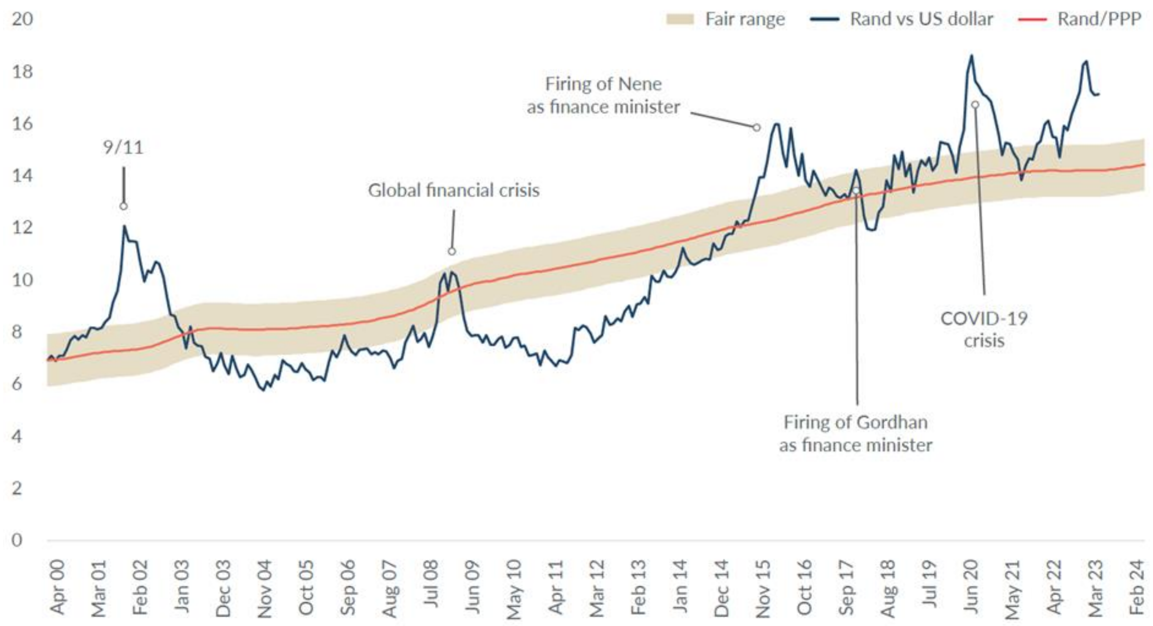
Our current thinking is that the fixed income market has largely adjusted to the higher inflation world in which we now find ourselves. In recent months, inflation in key Developed Market economies has started to moderate from its extremes seen around the middle of last year. Absent any major surprises (which, as we noted at the start are seldom predicted ahead of time with success!), at this stage, our view is investors can expect to earn the current running yield, with little change in capital value. This would imply c.3.5% to 4% on US bonds and c.10% to 11% on SA bonds. These are investments that can be sold at any time. For those that are prepared to lock up their money for a period of 6 months or more, there are now upper single digit returns available offshore on corporate credit. Because interest on most bonds does not grow by inflation in the same way that company earnings do and this interest is typically subject to income tax at your marginal tax rate, we continue to believe that, over the long-term, bonds will not be the best vehicle via which to grow wealth in real (after-tax) terms, it must be acknowledged that after years of close to zero interest rates on offer offshore, there is now a stronger case for an allocation into fixed income.

A further point to consider is the likelihood that bonds will once again begin to act as a hedge for equities. Should economic conditions deteriorate much more severely than expected in 2023, this will likely lead to company earnings being revised downwards and equity markets following one of the more negative possible paths, as shown in the chart from UBS at the beginning of this article. This is an environment that favors bonds, as a weak economy usually leads to downward revision in expectations for inflation, which means that bond yields fall, which, in turn, means that the capital value of bonds rise.

The Rand – global forces to overwhelm domestic gloom

If there is one prediction that Howard Marks's observations on the challenges of forecasting applies to most, it is probably a one-year prediction on where the Rand exchange rate will be! For the record, last year the rand depreciated 6.4% against a very strong US Dollar – not a bad performance for a currency that is typically a barometer of global risk sentiment.

As far as 2023 is concerned, as with our comments on avoiding the automatic presumption that a poor economic outlook for SA will automatically be reflected in the performance of our stock market, it is important to recognize that global forces have a very strong influence on our exchange rate too. While admittedly the rand has traded on the weak side of our fair value model for most of the last 7 years, we begin 2023 with the exchange rate at a relatively extreme level on the weak side. In previous cycles, USD strength has tended to reverse towards the end of the US interest rate hiking cycle, which currently looks likely to occur towards the end of the first half of the year. Furthermore, supportive commodity prices (Chine re-opening) and possibly greater investor interest in Emerging Markets generally (again helped by a more favourable sentiment towards China, perhaps), should be reasonably supportive for the rand. If the domestic situation was better, one could likely build a case that we could see a strong recovery in the exchange rate. However, even with SA's problems, we are envisaging that the Rand trades in a range of 16.00-R16.75/US$1 this year and ends the year at around R16.50/US$1.



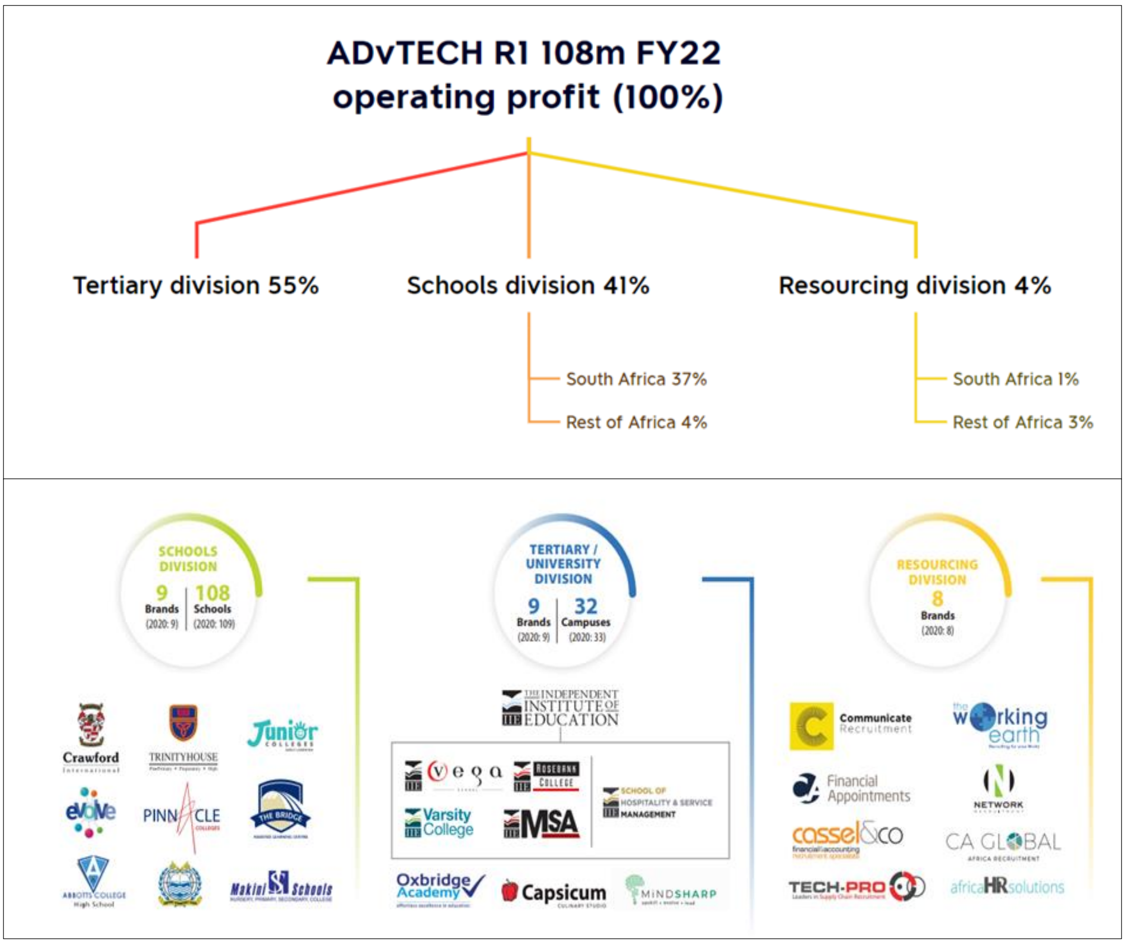
ANCHOR'S LOCAL STOCK PICKS FOR 2023

BY THE ANCHOR INVESTMENT TEAM

The Anchor investment team highlights a selection of JSE-listed and international companies that we believe are worth keeping an eye on in the year ahead. Keep in mind that these individual stock ideas may not necessarily be reflected in all client portfolios (as our portfolios have different mandates and risk-return profiles). However, we did try and find stocks that indicate how we pick our shares and that mirror our philosophy in this regard.

ADvTECH: A resilient service offering, education is in demand all over Africa

ADvTECH (ADH) has invested heavily in its South African and African schools and tertiary offerings over the past six years, but we believe earnings per share growth has not adequately reflected this. In addition to emigration and affordability, arrears have risen, and expansion has been funded with debt. Investment into other parts of Africa has yet to generate rewards; however, we see substantial opportunities in Africa, such as ADH's Kenyan operations. Education is a very defensive sector, and African governments such as Kenya are more likely to support a private education company due to the vested interest in the success of private schools that these politicians have. An overview of ADH is shown below.



Source: Anchor, ADvTECH

Due to a rising population and lack of public sector investment in education infrastructure, the state education system is at saturation point, resulting in low pass rates. Thus, there is huge demand for quality education, with 27% of South Africans between the ages of 5 and 19 and 18% between the ages of 20 and 29. As a result, the number of applications to certain public universities is up to fourteen times oversubscribed. With a long history and proven track record, ADH is SA's leading private school and tertiary educator. It has a 4% market share among SA university students and a 29% share among private higher education students, and we believe the growth potential is significant. We expect a one-year total return of 56.4% by applying an exit P/E of 16.6x to our ADH earnings.

ANCHOR'S LOCAL STOCK PICKS FOR 2023

BY THE ANCHOR INVESTMENT TEAM

Afrimat: Poised to deliver in 2023

Afrimat is again one of our stock picks for 2023 after the recent share price slide due to sagging iron ore prices, Transnet's persistent underperformance and an unexpected capital raise. Despite these short-term frustrations, our investment thesis is largely unchanged, and our high regard for this management team as shrewd and disciplined capital allocators remains.

Over the past decade, Afrimat has transitioned from a well-run but rather unexciting supplier of construction materials into a mid-sized diversified miner. It focuses on projects too large for small single-commodity operators to manage but too small for global diversified miners to bother with, placing Afrimat in relatively uncontested territory. It has achieved extremely rapid returns on its capital outlay by addressing deficiencies in projects they have taken over such as poor management or a lack of capital. Afrimat has been investing heavily in new projects to diversify away from its current single market (China) and reliance on Transnet due to the dominance of iron ore in its mining operations. We are confident in management's ability to deliver robust production and earnings growth into the next financial year and beyond. Afrimat trades on a forward P/E multiple to February 2023's earnings of 10.2x and is forecast to grow earnings at 18% for the next 3 years.

Bidcorp: Market share gains, organic and acquisitive sales growth to support its growth trajectory

Bidcorp is a leading international food service company operating in developed and developing countries across five continents. Operationally, Bidcorp is a clear market leader in its key regions. It delivers food service products to a diversified customer base and is driven by strong organic and international acquisitive growth, which we believe the market has yet to price in. The secular shift towards eating-out-of-home is favourable for Bidcorp. Several sectors, such as accommodation, workplace catering, entertainment, sports events, business travel, conventions and conferences, and the cruise line industry, have started to improve but have yet to recover to pre-COVID-19 levels. Despite increased input cost pressures in a challenging operating environment, we are encouraged by Bidcorp's ability to expand its margins.

Its increased exposure to independent restaurants has driven organic sales growth and contributed to the expansion of margins over the years. We expect earnings per share to grow at 12% p.a. for the next two years. Bidcorp is trading at a 17.7x, 12-month forward P/E multiple - below its five-year historical average P/E of 20x.

Bidvest: A strong balance sheet which delivers on both earnings and free cash flow

Bidvest is a leading international services, trading and distribution company. International services are the biggest contributor to operating profit (32%). We believe the market has not priced in highly accretive international deals that can unlock synergies if integrated correctly. Bidvest has historically demonstrated its ability to incorporate these acquisitions successfully. All divisions are performing well, and international travel continues to improve. The underlying trends in new contracts for office hygiene services remain strong, offsetting some of the high-margin COVID-19 work. Bidvest shows defensiveness in a challenging environment, and management are astute capital allocators, having avoided several possible deals due to the price not being right. We expect a one-year total return of 23.6% by applying an exit P/E of 14x to our earnings estimate.

Capital appreciation: A high ROE business with substantial growth opportunities

Capital Appreciation (CTA) is recently listed, but its underlying operations are well established in SA fintech. CTA is the market leader in procuring, securing, managing, maintaining and repairing point-of-sale (POS) devices issued by major banks to their merchant customers. One of its payment companies, Dashpay, specialises in electronic payment options for small, medium and micro enterprises and non-traditional merchants such as courier companies and shopping mall operators. We believe physical POS devices have an ever-increasing role in retail commerce, and the number of devices in the SA market will grow significantly. Growth in this space is forecast to be 31% over the next three years, and CTA is well-positioned to increase its market share (currently estimated at 35%). Another key secular theme CTA will benefit from is the trend of digital payments replacing cash/card penetration within the broader population.

Its balance sheet is strong and flush with cash; thus, CTA can invest in new technologies like Halo Dot, acquire businesses at favourable terms, buy back shares and continue to pay dividends. Increasing Halo Dot's global client base would be an essential catalyst for P/E multiple expansion. CTA's operating profit is split between its payments division (65%) and software (35%). With 75% revenue growth and a strong pipeline of projects, its Software segment is gaining considerable traction from cloud, digital, and Intelligent data. We expect a one-year total return of 70.8% by applying an exit P/E of 12x to our CTA earnings.

Naspers/Prosus: A much-needed humbling and better for it

In 2019, when Naspers took what it thought was a major step to unlock shareholder value by creating Prosus, it was met with a decidedly mixed response from investors. Instead of closing the discount to net asset value (NAV) of its investments, it created complexity in the corporate structure, which, together with concerns surrounding China's investability, ultimately saw the discount to the value of its investments widen materially. The discount to NAV is c. 44% for Naspers and 35% for Prosus. 77.4% of Naspers/Prosus' listed assets are in Tencent.

Three key factors drive our investment thesis. First, we expect the historically loss-making internet and e-commerce companies in Prosus to progress towards profitability as the division becomes self-sustaining from a funding perspective and demonstrates that it will be a source of faster growth than Tencent. We, therefore, expect that the investment case for Prosus will increasingly expand beyond being seen merely as a discount play on Tencent. Second, the optionality provided by the buyback of Tencent shares should increase the NAV/share by 7%-8% p.a. Third, the investment case for Naspers/Prosus will continue to be dominated by Tencent, which we are decidedly more optimistic about. Tencent should benefit from a depressed earnings base which, together with a cost-efficiency drive and the easing of COVID-19 restrictions in China, should see an improved future operational and investment performance from Tencent.

Citigroup: Simplicity is good for returns

Citi is a "self-help" story, with the share trading at a significant discount to competitors and with material upside potential. Citi's share price performance has been unexciting over the past five years, but it is simplifying its focus on key strategic areas. Its current share price is c. US$49, and it is trading at 0.57 of its tangible book value per share (US$80.34) - the biggest discount to tangible book value among the large US banks. Its return on tangible capital employed (ROTCE) was 8.2% for 3Q22. We expect this to increase to 11%-12% over the next two years, highlighting that this is its primary investment case.

Citigroup is simplifying its business worldwide by exiting many of its retail banking operations. Once it has exited various countries (such as Mexico, China, Russia, and India), it will only remain in US retail banking. Citigroup's ex-US strategy is to provide continued support and grow its offerings for its 5,000 corporate multinational clients globally. This will help lower its cost base and increase its ROTCE. Citigroup is trading on a P/E of 6.8x, and we have a price target of US$129, with an upside of 164% on a two-year view.

Constellation Software: An attractive investment opportunity

Constellation Software (CSU) is a Canadian acquirer of vertical market software (VMS) businesses in sectors that allow asset-light operations with competitive moats. Its business model is to acquire, manage and organically grow businesses. Its VMS businesses are in industries such as healthcare, municipal systems, marine asset management, parking and food services. CSU is geographically diversified, with 40% of revenue from the US, 38% from Europe and 11% from Canada. All of its acquisitions have been funded from free cash flow (FCF). Since its IPO in 2006, CSU has never issued any shares, and its net debt balance could be completely paid off with a year of FCF. Revenue has grown 21% over the past ten years, and FCF margins have risen from 17% in 2011 to 25% in 2021. Over the past five years, 63% of FCF has gone towards acquisitions. Given the decline in software business valuations, CSU has stepped-up investments, which we find encouraging.

Fortinet: Exceptionally well-run company with a significant focus on shareholder returns

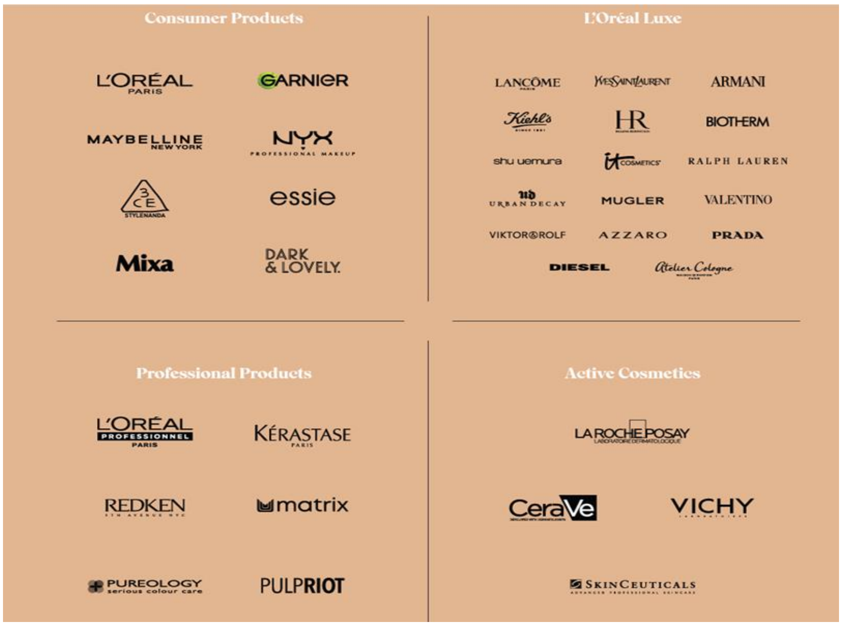
Fortinet is the second-largest independent, pure-play cybersecurity company by revenue. Cybersecurity is considered the most defensive part of the global tech sector. Given the dramatic increase in cyber hacks and ransomware, corporate cybersecurity spending is a necessity, and thus, the sector has strong secular tailwinds. The shift to the cloud is the other key theme in global tech, and in many respects, the cloud overlaps cybersecurity. The move to the cloud has dramatically raised the attack surface that has to be protected, spawning a new wave of cybersecurity solutions. Rising global geopolitical tensions have also heightened the risk of cyber warfare. A key characteristic of the sector has been strong revenue growth and consistently beating consensus expectations, even during the 2022 earnings slowdown.

A key cybersecurity theme is the consolidation of the many solutions on offer to fewer, wide platform vendors. Fortinet arguably has the most comprehensive cybersecurity solutions platform in the world, making it a one-stop shop for corporates. Fortinet is also considered best-in-class in several cybersecurity areas. It is exceptionally well-run, with a significant focus on shareholder returns (it has historically used most of its net cash position to buy back shares). It has low equity dilution from stock-based compensation compared to most other tech companies and, as such, its shares in issue have declined c. 10% over the past five years, which is directly accretive to earnings. It has a proud record of internal innovation rather than conducting multiple smaller bolt-on acquisitions to gain leadership in cybersecurity.

Very few sectors are unlikely to be negatively affected by the macro headwinds brewing in 2023. Even cybersecurity will likely see revenue growth slow in 2023 from the very high rates achieved in recent years. However, this sector should still be relatively attractive in a world starved of growth options. Fortinet's FCF margins of c. 35% are extremely high, placing it in the top 10% of all S&P 500 companies . It is trading on a one-year forward P/E of 37x and, while this is high, it is not uncommon for US growth tech stocks to sustain these multiples. The share price is c. 30% below its all-time high, which together with strong historical earnings growth have brought its one-year forward P/E down from c. 70x to 37x.

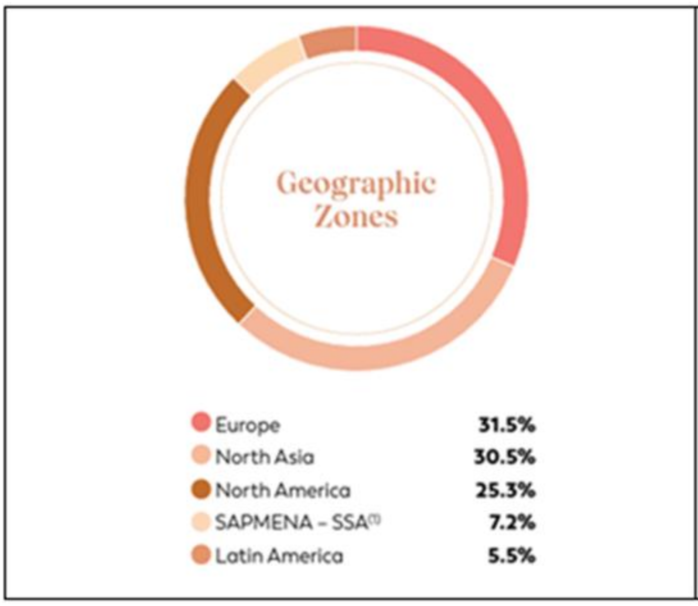
L'Oréal: A world-class business of enduring quality

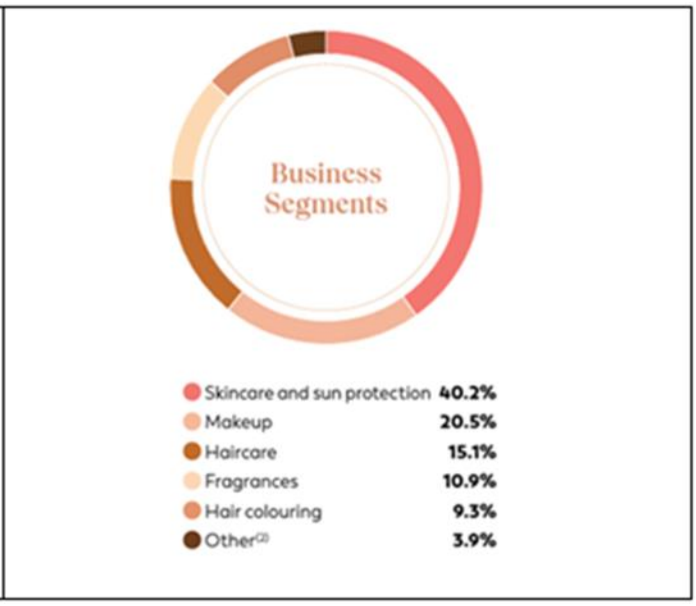
L'Oréal is the world's premier beauty company with a c. 13% global market share. It is family-controlled (35% ownership) and has a rich history of research innovation and strong brands. It carries low single-product risk, selling 7bn products p.a., across 35 brands and 4 divisions (see diagram below) in over 150 countries.



Source: L'Oréal

18% of L'Oréal's sales come from China, and it stands to benefit from China reopening its economy. Sales by geography are shown in the pie chart below left, while on the right it shows its product mix.





Source: L'Oréal

While not totally immune to the macro headwinds looming in 2023, L'Oréal's beauty business is relatively defensive. Its global leadership in its industry has meant that sales have grown at 1.5x the global beauty market over the past 20 years – c. 25% of sales are achieved through e-commerce, the highest of any major beauty company.

It is trading on a one-year forward P/E of 31x, and while this is not cheap, it is a material derating from the 60x trailing P/E it peaked at in 2021. L'Oréal's euro dividends have grown 13.3% p.a. over the past 24 years and it has averaged a 17% ROCE over the past decade.

Mercado Libre: Commanding a front seat at the table for investors over the next year

Since its inception four years ago, Latin American e-commerce business Mercado Libre (Meli) has been a core holding in our emerging markets portfolios. It is based in Argentina, with its biggest market being Brazil. The share has produced stellar returns, and despite the recent sell-off, our long investment horizon removes the distraction of focusing on the volatility of short-term price swings. Macro and geopolitical forces have had outsized influences on share price performance, and we are confident about where Meli finds itself in its current business cycle. What began as a marketplace business (like eBay) has evolved into direct e-commerce (Amazon), payments, and lending. Meli has a dominant market position, exhibits operational excellence, and its eco-system presents a strong moat in its markets.

Meli's revenue and operating margins have grown consistently in the past five years, which is expected to continue. Since our initial investment in Meli, it has exceeded our expectations, and we are confident about the outlook for its operations.

Shopify: Long-term sustainable growth

E-commerce business Shopify enables merchants to sell products online by acting as an online platform and a fulfilment company. Its goal is to offer merchants an all-in-one service, including website construction, capital raising, payments, invoicing, fulfilment, etc. It hooks merchants with a cheap monthly subscription and then ratchets on more services for an extra fee as the merchant becomes more successful. Hence Shopify is well aligned with its customers' success. Its e-commerce platform currently has a 32% US market share, with 65% of revenue generated in the US.

Lately, Shopify has been focusing on integrating social media with e-commerce. It recently showcased the seamless interactions between YouTube and its online store where, for example, a consumer watching a live stream of their favourite YouTube influencer can interact with the video and almost immediately purchase directly from the store on Shopify. Shopify purchased logistics platform Deliverr earlier last year, bringing delivery of goods in-house. It can deliver to much of the US within two days. Shopify's business model has subsequently morphed from an asset-light platform business to an e-commerce fulfilment giant to remain competitive in logistics with Amazon. Amazon has subsequently been offering more Shopify-like services to its marketplace. Although we foresee increased competition going forward, Shopify has a large enough market share to remain competitive and share the e-commerce space with Amazon over the coming years. While it will no longer be as asset-light, it will make its moat even greater, further blocking new incumbents.

Despite the normalisation of e-commerce spend (due to COVID-19 disruptions) as a percentage of total consumer spending, Shopify is well-positioned to take advantage of long-term e-commerce adoption as the world stabilises over the coming years. Revenue is growing at over 20% p.a. in a tough environment, and we believe it is making the correct capital investment decisions to remain competitive and allow for long-term sustainable growth.

WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

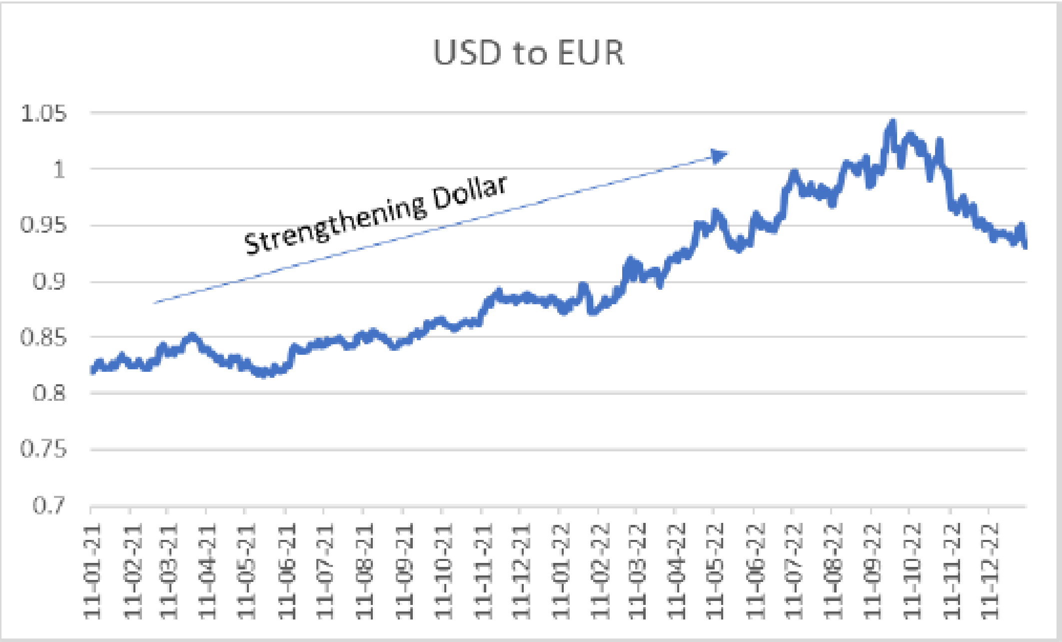
RCI BCI WORLDWIDE FLEXIBLE FUND

December saw a collapse in global markets once again as volatility continues to keep market participants on their toes. The MSCI World Developed Markets fell 4.2% for the month and we are again teetering on the edge of bear market territory – generally defined as a 20% decline. This whipsaw behaviour is typical of bear markets as small relief rallies suck investors back in but quickly fizzle out as overall sentiment is not positive enough to keep prices higher for longer.

Inflation, interest rates and recession worries continue to be the largest influences on market sentiment. Currently market participants eagerly await a pause or at least a slowdown in interest rate hikes. Inflation does appear to be coming under control as major input costs have receded from their highs last year. The likes of oil and gas are now lower than they were a year ago however there is still a lag effect in wage growth in the developed world.

This month China has made pivotal changes to its zero-COVID policy that is playing havoc on its economy as its population struggles with the virus. The population has had very little exposure to COVID over the last 3 years. The rest of the world has taken years to gain herd immunity through infection and vaccines, and now China are experiencing conditions similar to our first wave of COVID-19. The largest impact is of course on the elderly and immunocompromised, and initial death estimates are expected to be over a million. This will have a major impact on their working population for the short to medium term but in the long run there is an expectation that China will stimulate their economy. This should have a positive impact not only on China itself, but also the rest of the world, especially countries like South Africa – being commodity exporters. The Xi Jinping administration is expected to fight their biggest battles over the coming weeks as it struggles to control dissent amongst the population as a result of mismanagement around COVID-19. China was extremely oversold during 2022 as a result of their policies and we have held our Chinese position through this turmoil and we are now beginning to see large flows back into China as sentiment improves again.

The dollar has been extremely strong against the Euro and Pound over the last two years but has recently cooled as concerns around European economic geopolitical stability subside. The Dollar and Euro were at parity in November but are now trading at about $1 to €0.95.



(Source: Bloomberg, RCI)

At this time, it is becoming clearer that Europe's recession will likely not be as bad as anticipated and hence was also oversold during 2022. Whilst we remain cautious around European investments, we are always interested in multinationals that don't have exposure only to the European economy. These businesses have, however, not been as oversold as European specific companies and are thus not as attractive.

WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

BY THE RCI INVESTMENT TEAM
(CONTINUED)

The Family Office

2022 was a tough period for the Fund as the sectors that helped us perform well in the past had significant pullbacks during the period. Our fund had no exposure to energy and utilities which were the best performing sectors in the S&P 500 for the year, and little exposure to consumer staples, the third best performing sector. We have large exposure to the likes of Software, Services, Consumer Discretionary and Communication Services which all had very poor comparative performance for the period. We are however confident the long-term positioning of the fund is still correct as Energy, Utilities and consumer staples tend to be poorer quality long term investments as they do not compound over time. No investment strategy works every year, but we believe our positions in quality, high Return on Capital Employed businesses should result in decent returns over the long run.

Performance of S&P 500 Sectors in 2022	
Energy	+59%
Utilities	-1%
Consumer Staples	-3%
Health Care	-4%
Industrials	-7%
Materials	-14%
Banks	-22%
Software & Services	-27%
Real Estate	-28%
Consumer Discretionary	-38%
Communication Services	-40%

(Source: Bloomberg, RCI)

We encourage our clients to be vigilant during these tumultuous times as this too will pass. We are long term investors in high-quality equities that will come into favour again once sentiment improves.

Portfolio strategy

The focus of the portfolio continues to be direct investment in high quality offshore equities that are world leaders in their industries, with emphasis on businesses with high Return on Capital Employed combined with excellent free cash flow generation. We tend to ignore whether or not a company pays a dividend but usually prefer those businesses that reinvest earnings in their internal operations. We also tend not to chase short-term investment narratives and themes that could be trending in the market, as we would not want to reduce the quality of the portfolio for the sake of following the flavour of the month.

Our top 10 positions:

	PE in one years time	PEG Ratio ('22 PE/'22-24 Growth)	EPS Growth		
			2021-2022E Growth	2022-2023E Growth	2023-2024E Growth
ADOBE SYSTEMS INC	22.00	1.75	36%	12%	13%
ALPHABET INC-CL C	15.04	0.99	4%	13%	17%
BOSTON SCIENTIFIC	23.80	1.91	6%	12%	12%
DISNEY	21.15	1.06	60%	10%	31%
INTUIT INC	26.97	1.79	43%	17%	13%
KWEB CHINA INTERNET ETF					
MICROSOFT CORP	22.01	2.59	19%	1%	16%
MONCLER SPA	23.42	2.64	39%	5%	13%
STRYKER CORP	25.76	2.97	1%	7%	11%
VISA	24.62	1.81	26%	12%	16%
Median PE	**23.42**				
PEG Ratio (Forward PE/'22-24 Growth in EPS)		**1.81**			
Annual EPS Growth Rate (Median)			**26%**	**12%**	**13%**

Robert Cowen Investments
Growing families' wealth since 1982

Our top 10 positions are expected to grow earnings per share by about 12-13% per year for the next two years. Our companies are trading at higher valuations, 23x, versus the S&P500's 17x, but they deserve to do so as they are higher quality businesses growing earnings at a higher rate than the market. This is especially so when compared to expected returns on investments in bonds or cash.

Main changes during the month

- **Sold Meta –** The recent bounce in Meta's share price gave us the opportunity to sell our position. Although Meta is one of the cheapest large cap tech shares at present, it is riddled with major concerns around Zuckerberg's increased spending on the Metaverse in the face of decreased advertising revenue. This is because global companies are cutting back on their advertising spend as times get tougher during this interest rate hike cycle. On paper there is huge revenue potential for Meta but they continually struggle with implementation. We would thus prefer to be spectators on the side-lines whilst the company goes through this period of uncertainty.

Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2017	-	-	-	-	5.1%	-1.6%	1.5%	-1.8%	3.2%	5.8%	-2.9%	-6.8%	**1.9%**
2018	1.4%	-3.2%	-3.6%	6.8%	1.4%	10.8%	-2.1%	14.1%	-4.1%	-7.3%	-3.8%	-2.8%	**5.6%**
2019	-0.7%	7.1%	4.3%	4.0%	-2.9%	0.5%	2.6%	3.3%	-0.3%	2.5%	-0.3%	-1.1%	**20.3%**
2020	7.3%	-1.5%	5.6%	10.2%	-1.9%	1.7%	3.5%	6.0%	-4.7%	-2.8%	0.4%	-3.0%	**21.5%**
2021	5.4%	1.0%	-1.9%	2.7%	-4.5%	7.9%	1.8%	0.7%	-1.2%	4.2%	0.8%	-1.2%	**16.3%**
2022	-12.4%	-2.5%	-6.0%	-2.4%	-5.9%	-4.3%	8.2%	0.0%	-4.7%	6.4%	-5.8%	-1.4%	**-27.9%**

The fund was down 1.4% in ZAR terms (-1.5% in USD) for the month compared to the MSCI Developed Markets Index which was down 4.2% for the month. The Rand was flat against the Dollar for the month.

For the 2022 year, the fund was down 27.9% in Rands or 32% in USD terms, with the rand having weakened 6% against the dollar. The MSCI Developed Markets Index has fallen 13% in USD for the same period.

For the 2021 year, the fund closed up 16.3% in Rands or 7% in USD terms, with the rand having weakened 8.1% against the dollar. The MSCI Developed Markets Index had risen 20% in USD for the year.

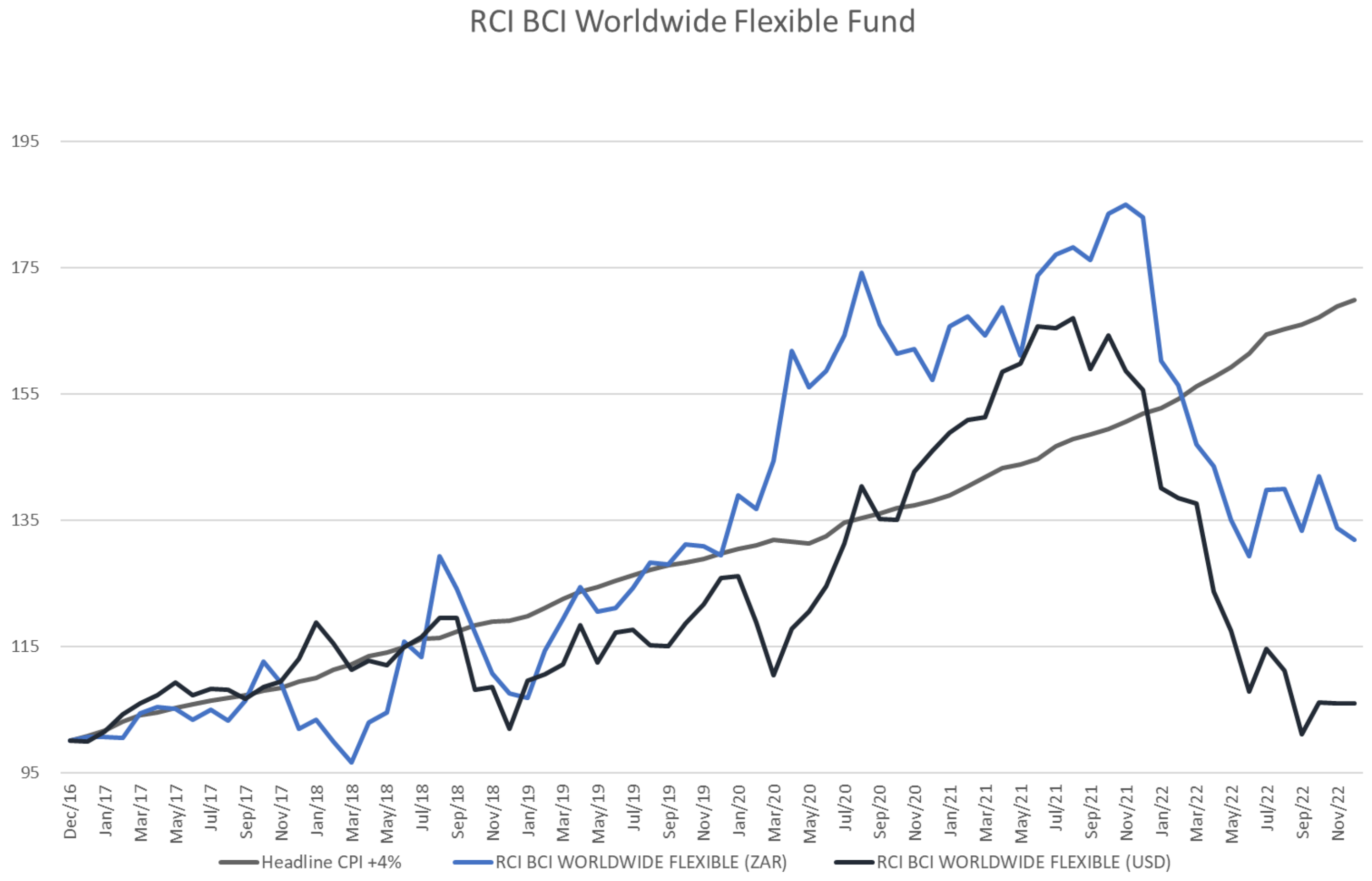
The RCI BCI Worldwide Flexible Fund investment team:

- **Mike Gresty**
- **Di Haiden**
- **Ross McConnochie**
- **Eric Lappeman**
- **Andrew Lawson**
- **Gontse Dikeledi**
- **Keiran Witthuhn**

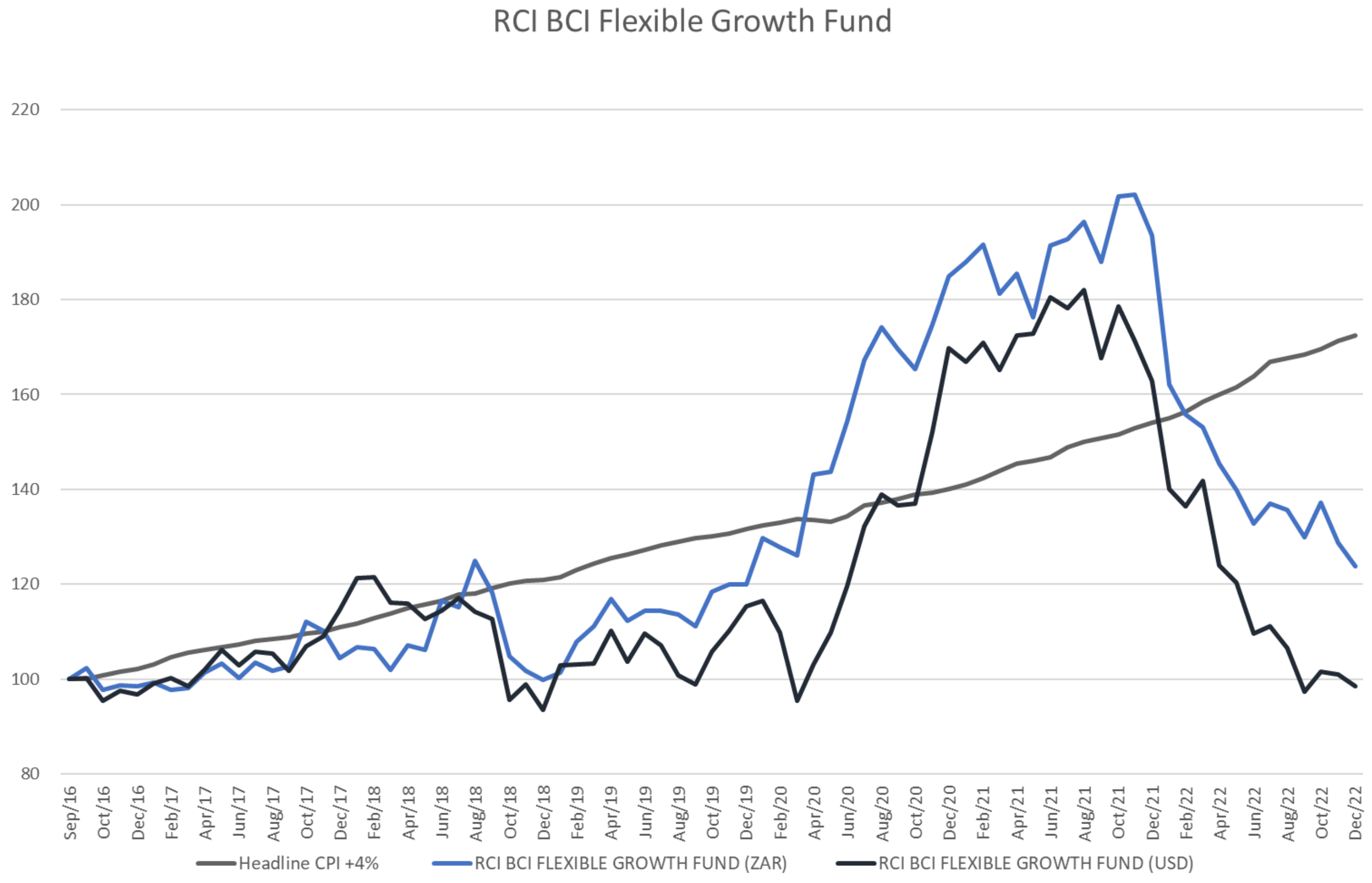
RCI OFFSHORE UNIT TRUSTS

"In the short run, the market is a voting machine, but in the long run it is a weighing machine." – Benjamin Graham

RCI BCI Worldwide Flexible Fund closed December at 131.82c, down 1.4%% for the month and down 27.9% for the last 12 months.



RCI BCI Flexible Growth Fund closed December at 123.74c, down 3.8% for the month and down 36.0% for the last 12 months.



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WHAT HAVE WE BEEN DOING IN THE LOCAL FUND?

ANCHOR BCI SA EQUITY FUND

The Family Office

BY THE ANCHOR BCI SA EQUITY TEAM

After a strong preceding two months, the positive momentum for Developed Market equities faded into year-end (MSCI World Index -4.2% in December, marginally avoiding "bear market" territory (generally defined as a fall of more than 20%) over the whole of 2022, ending -18% for the year). A decidedly risk-off orientation to the month was reflected in the fact that more defensive sectors (Utilities, Healthcare and Consumer Staples) outperformed, while more growth-orientated Information Technology and Consumer Discretionary shares were left fighting for the wooden spoon. Larger capitalisation tech names were notable casualties – Apple, Amazon Alphabet and Tesla – all experiencing double-digit price declines in the month. In the US, while the Fed delivered its expected 0.5% rate hike, the accompanying commentary from Fed officials remained decidedly hawkish, pouring cold water on equity bulls' hopes that a pivot to a more accommodative stance may be approaching. Emerging Markets outperformed DM in December, but also had a negative month (MSCI Emerging Markets -1.6% MoM). This EM outperformance was thanks in part to China's unexpectedly sharp departure from its zero-COVID policy, which was treated with relief by investors, despite concerns about the ability of its healthcare system to cope with the anticipated surge in infections (MSCI China +5.2% MoM).

South African equities also followed two strong months of performance with a decline in December (FTSE/JSE Capped SWIX -2.8% MoM). December's stock market performance was looking decidedly worse in early December as President Cyril Ramaphosa faced an impeachment vote and the possibility of needing to step aside as a result of criminal charges related to the theft (and subsequent handling thereof) of foreign currency from his Phala Phala game farm. Managing to avoid any serious fallout from this alleged misconduct and what was generally seen as a relatively investor-friendly outcome from the ANC Elective Conference, meant that these SA-specific political risks were ultimately avoided. Despite a strong rand (+1% MoM against the US dollar), offshore-orientated companies outperformed, particularly those with exposure to China (miners exposed to iron ore and Naspers/Prosus, for example), no doubt benefitting from the China Zero-COVID policy news. It was a tough month generally for companies exposed to SA. Aside from possible unease about the political risks that SA faced through December, which weighed on sentiment, intensifying loadshedding at a time when many energy-heavy industrial users were winding down for the Festive Season break, loomed large in investors' minds as they consider where the balance of risks lies for SA Inc. heading into 2023.

The focus of the portfolio is on investing in domestically listed companies that have an investment case that insulates them from SA's difficult economic situation (strong multinational franchise, rand hedge, dominant local platform, or clear local expansion strategy for example); high confidence in improving Return on Capital Employed and excellent cash flow generation. Of those companies that pay a dividend we prefer businesses with a dependable and solid payment history.

At the end of December, the top 15 holdings in the fund, making up 69% of the equity exposure, were as follows:

- Naspers
- Prosus
- Anglo American
- Investec
- Bidcorp
- Afrimat
- Absa
- Bidvest
- BHP
- MTN
- Sasol
- Advtech
- Capitec
- Transaction Capital
- Discovery

WHAT HAVE WE BEEN DOING IN THE LOCAL FUND?

BY THE ANCHOR BCI SA EQUITY INVESTMENT TEAM
(CONTINUED)

The Family Office

Main changes in the month

After a fair amount of activity in the fund in November, we made few changes in December. We added to our position in Advtech, which now appears among our top-15 holdings. This follows recent work on the company and several engagements with management which has strengthened our conviction in its ability to sustain superior compound growth. Apart from this, we opted to remain patient with cash (currently 9% of the fund) in anticipation of possible market volatility in the near-term presenting better opportunities for deployment.

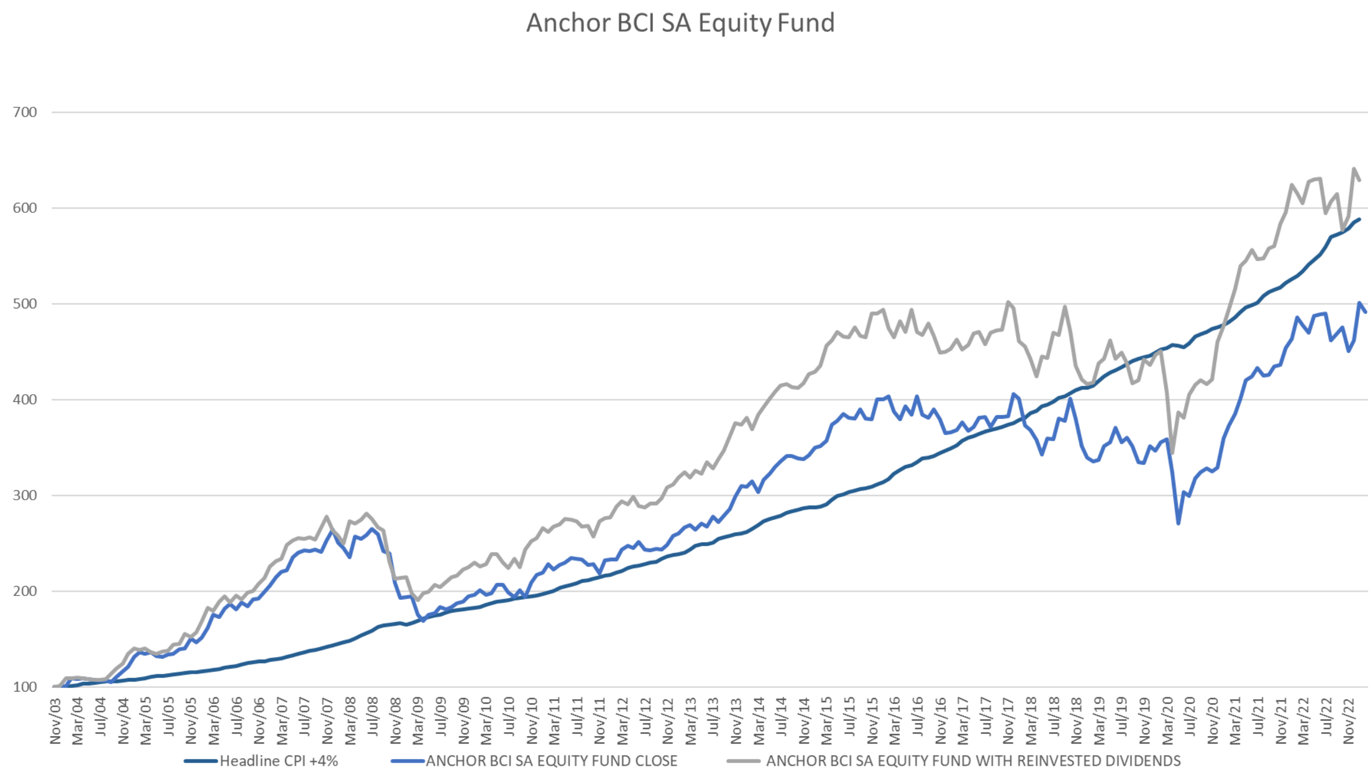
Performance

The Anchor BCI SA Equity Fund ended December down 1.8%. Although a negative month, outperformance of the of the FTSE/JSE Capped SWIX Index in the month resulted in the fund’s +4.82% return for 2022 modestly outperforming the index’s +4.5% return for the year - one of very few equity markets/asset classes around the world that delivered a positive return in 2022.

The Anchor BCI SA Equity team

Mike Gresty, Liam Hechter, Steph Erasmus, Seleho Tsatsi, Peter Little, Zinhle Mayekiso

The Anchor BCI SA Equity Fund closed December at 110.21c, down 1.8% for the month and up 1.1% for the last 12 months.



Note: The performance history above uses that of the RCI BCI Flexible Fund until 30 September 2022, the date of its amalgamation with the Anchor BCI SA Equity Fund.

Collective Investment Schemes in Securities (Unit trusts) are generally medium to long term investments. The value of participatory interests (units) may go down as well as up, and past performance is not necessarily a guide to the future. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from the company/scheme. Commission and incentives may be paid and, if so, would be included in the overall costs. The portfolio is registered under the license of Boutique Collective Investments, a member of the Association for Savings & Investment SA. Forward pricing is used. More details are contained in a fact sheet that is available upon request.

CHARTS, MEMES AND INTERESTING CONCEPTS FOR THE MONTH

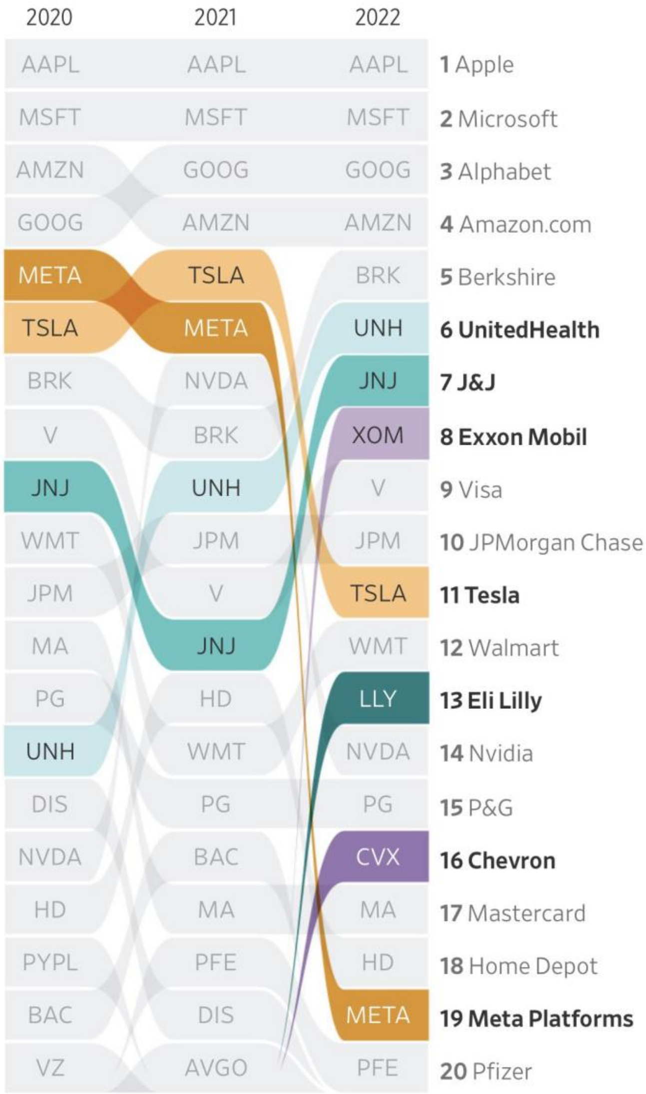
@CharlieBilello Data: YCharts			Country ETFs: 2022 Total Returns (in US $) as of 12/31/22					
Country	Ticker	2022	Country	Ticker	2022	Country	Ticker	2022
Turkey	TUR	105.8%	Saudi Arabia	KSA	-6.1%	Ireland	EIRL	-18.8%
Chile	ECH	25.2%	Hong Kong	EWH	-6.8%	Switzerland	EWL	-18.9%
Brazil	EWZ	12.4%	Qatar	QAT	-7.2%	Colombia	GXG	-21.3%
Argentina	ARGT	11.8%	India	INDA	-8.9%	Austria	EWO	-21.9%
Greece	GREK	3.6%	Singapore	EWS	-9.8%	Germany	EWG	-22.2%
Peru	EPU	2.1%	Denmark	EDEN	-11.4%	China	MCHI	-22.8%
Mexico	EWW	1.3%	France	EWQ	-12.0%	Netherlands	EWN	-24.4%
Thailand	THD	1.2%	Norway	NORW	-12.5%	Poland	EPOL	-24.6%
Indonesia	EIDO	-0.2%	Canada	EWC	-12.9%	Egypt	EGPT	-24.6%
United Kingdom	EWU	-4.4%	Nigeria	NGE	-13.7%	South Korea	EWY	-26.6%
Portugal	PGAL	-4.8%	Belgium	EWK	-13.9%	Israel	EIS	-27.0%
South Africa	EZA	-5.1%	Italy	EWI	-14.1%	Sweden	EWD	-27.8%
Spain	EWP	-5.2%	Philippines	EPHE	-15.9%	Pakistan	PAK	-28.8%
UAE	UAE	-5.3%	New Zealand	ENZL	-16.2%	Taiwan	EWT	-28.8%
Australia	EWA	-5.9%	Japan	EWJ	-17.7%	Vietnam	VNM	-43.7%
Malaysia	EWM	-6.0%	US	SPY	-18.2%	Russia	ERUS	-99.8%

Source: Charlie Bilello

South Africa clocks in at number 12, signalling a decent year for South African equities despite the widespread turmoil in global markets! Turkey has come off a very low base after having more than halved during 2018 to 2021. The tremendous 105.8% gain in 2022 (in USD) was also due to investors using equities as a hedge against surging consumer prices and a plunging Turkish lira as Turkish residents sought assets to store their savings. The Central Bank of Turkey also cut its interest rate during 2022, from 14% to 9%, reducing the opportunity cost of cash and providing stimulus for risk assets.

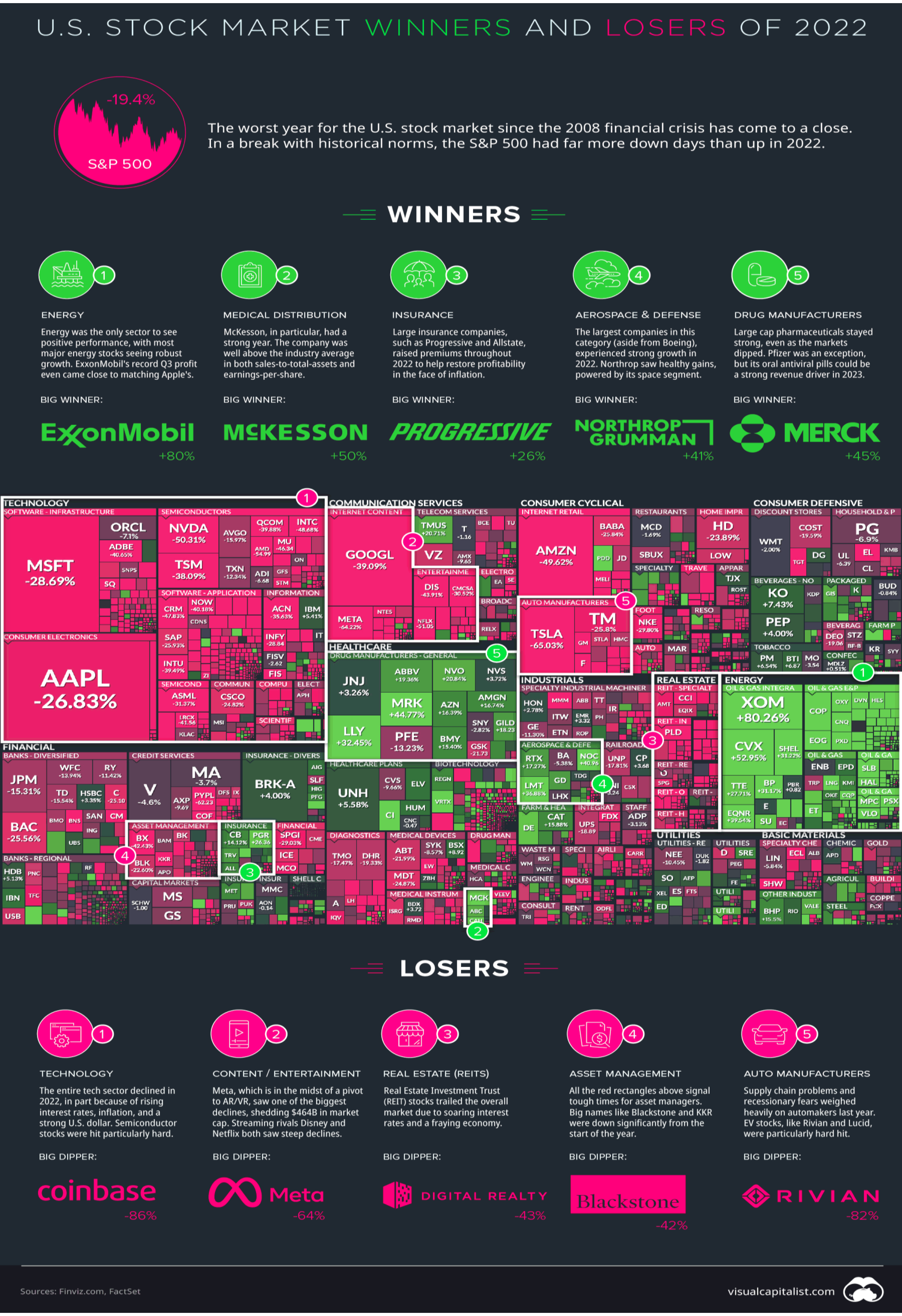
To the right, we show a graphic of the 20 largest companies on the S&P 500 at the end of the last 3 years. Apple, Microsoft, Alphabet (Google) and Amazon remain the 4 largest US companies. The more defensive companies and those one would consider to fall under the value style as well as energy outperformed in 2022. These include Berkshire Hathaway, UnitedHealth, Johnson & Johnson, Exxon Mobil, Walmart, Eli Lilly and Chevron. However, this recent outperformance is a drop in the ocean compared to the huge underperformance of value versus growth investing since 2007.

Some of the worst hit companies in 2022 were Tesla, Meta, Amazon, Walt Disney and Nvidia. On average over the past two decades, the biggest 10 stocks accounted for roughly 20% of the S&P 500 and the largest five, 13%. But the concentration has intensified. At the peak in 2020, the top five accounted for 22%. By December in 2022 it had eased somewhat, but the big five — Apple, Microsoft, Amazon, Alphabet and Warren Buffett's Berkshire Hathaway — still made up 17%.

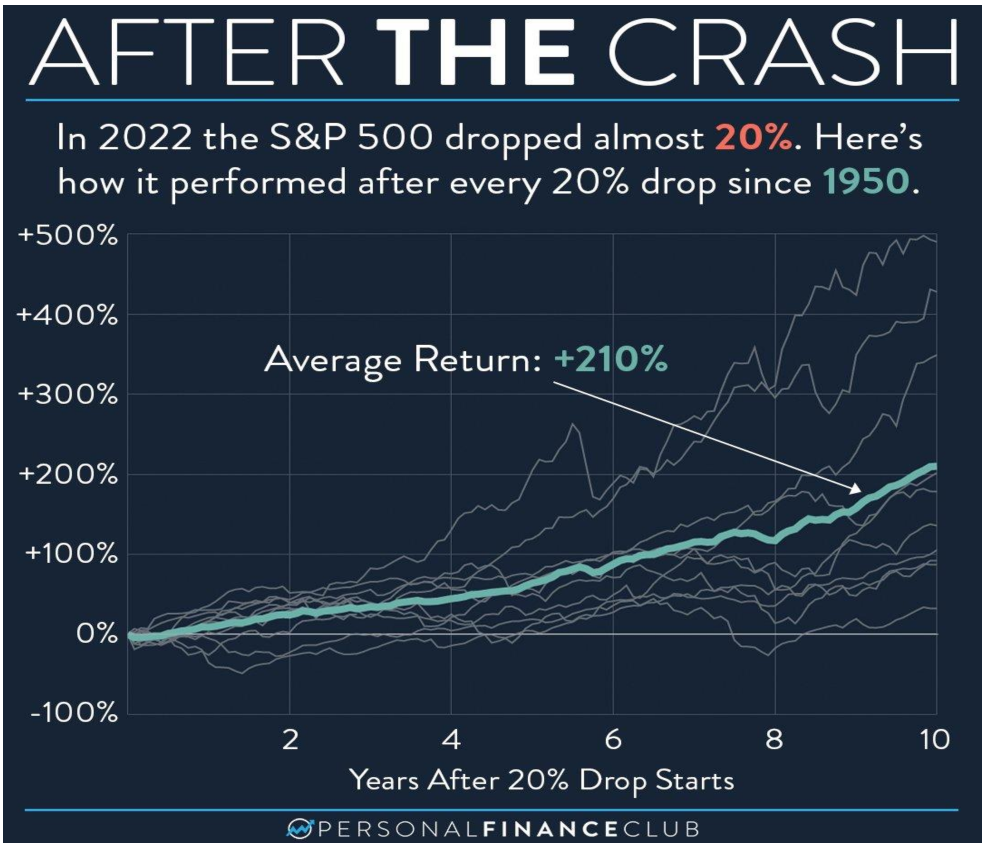


Source: Nate Rattner

CHARTS, MEMES AND INTERESTING CONCEPTS FOR THE MONTH



Source: Visual Capitalist



Source: Personal Finance Club

The S&P 500 was down -19.4% in 2022. The above graph shows how the S&P 500 has performed since 1950 in the years following a 20% drawdown. The average return 5 years after a significant drawdown is about 80% (12.50% per annum). After 10 years the average return is 210% (12% per annum). This is however, in USD, the ZAR has depreciated against the USD at 5.1% per annum in the last 25 years, and 6.9% per annum in the last 10 years. This data serves as a reminder that investors with a long enough time horizon should not make any significant changes to their investment strategy just because of a 20% drop in the market.

EURASIA GROUP: TOP RISKS 2023

With the above in mind, it is also important to be cognizant of the various risks that are ever present and which we continuously monitor. At the start of every year, global political risk expert, Ian Bremmer of the Eurasia Group compiles a report of the top 10 risks around the world for the year ahead. The latest report of the top 10 risks for 2023 can be found here and are summarized below:

1. **Rogue Russia** - A humiliated Russia will turn from global player into the world's most dangerous rogue state, posing a serious security threat to Europe, the United States, and beyond.
2. **Maximum Xi** - Xi Jinping emerged from China's 20th Party Congress in October 2022 with a grip on power unrivaled since Mao Zedong.
3. **Weapons of Mass Disruption** - New technologies will be a gift to autocrats bent on undermining democracy abroad and stifling dissent at home.
4. **Inflation shockwaves** - Rising interest rates and global recession will raise the risk of emerging-market crises.
5. **Iran in a corner** - The chance of regime collapse is low, but it's higher than at any point in the past four decades.
6. **Energy crunch** - Higher oil prices will also increase frictions between OPEC+ and the United States.
7. **Arrested global development** - Women and girls will suffer the most, losing hard-earned rights, opportunities, and security.
8. **Divided States of America** - There is a continuing risk of political violence in the US, even as some who participated in the Capitol riots go to prison.
9. **Tik Tok boom** - Gen Z has both the ability and the motivation to organize online to reshape corporate and public policy, making life harder for multinationals everywhere and disrupting politics with the click of a button.
10. **Water stress** - This year, water stress will become a global and systemic challenge...while governments will still treat it as a temporary crisis.

CHARTS, MEMES AND INTERESTING CONCEPTS FOR THE MONTH

2023 PREDICITONS USING AN AI LANGUAGE MODEL (IN ORDER OF NUMBER OF PREDICTIONS)

Source: Visual Capitalist